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GENERAL ACCOUNTING OFFICE

"Who Is Watching The Defense Dollars?" is the title of a 2/5/82 GAO study which was prepared to help the Congress in its consideration of legislation, H.R. 2098 and S. 1932, to establish a statutory inspector general organization in the Department of Defense. The study, AFMD-82-26, notes that Defense employes 18,000 people in audit and investigative organizations with the responsibility to watch annual Defense outlays which will soon exceed $200 billion. GAO expressed support for the legislation, but suggested some modifications including: establishing the position with the title of "Auditor General" to reflect the office's broad responsibilities and to avoid the usual military connotation of inspector general; incorporating the Defense Audit Service, the Defense Logistics Agency IG, and the criminal investigative operations into the new office of Auditor General; and, excluding the Defense Contract Audit Agency from the office of Auditor General. H.R. 2098 and S. 1932 would establish offices of inspector general in the Departments of Defense, Justice, Treasury and the Agency for International Development. H.R. 2098 was passed by the House of Representatives and referred to the Senate. S. 1932 is still under Senate consideration.

SECURITIES AND EXCHANGE COMMISSION

The SEC's budget request for fiscal 1983, as approved by the President, provides for a decrease of 125 permanent positions from the 1982 staffing levels, to affect all eight SEC programs. It also provides for an increase of $1,394,000 from the current fiscal 1982 funding level for a total fiscal 1983 budget of $84,300,000. In a reference to "Accounting Policy" contained the budget section titled "Full Disclosure," the SEC states that: "Resolution of issuer problems and assistance in accounting investigations will continue to receive top priority. The simplification or elimination of unnecessary accounting requirements will also continue. Other resources will be devoted to overseeing and evaluating the accounting profession's peer review program, which will include over 200 reviews to be conducted by the profession during 1982. The activities of the private sector accounting and auditing standard-setting organizations will be monitored, particularly in view of the increasingly complex accounting and financial reporting issues being addressed, to ensure that the performance of the private sector standard-setters is consistent with public policy and deregulatory goals."

TREASURY, DEPARTMENT OF

Collection of past due child and spousal support from federal tax refunds as provided under the Omnibus Budget Reconciliation Act of 1981 was the subject of temporary, final and proposed regulations recently issued by IRS (see the 2/8/82 Fed. Reg., pp. 5712-16, 5728). The regulations, which affect all taxpayers who are owed refunds and who are liable for past-due support, require the Secretary of the Treasury to offset amounts of such support from any overpayment to be refunded. The temporary and final regulations deal with the procedure and administration of the offset and define "past-due support" as the amount of a delinquency determined under a court order or an order of an administrative process established under state law for child or child and spousal support. Only amounts of support that are $150 or more and at least three months delinquent and have been assigned to a state under section 402 of the Social Security Act are eligible for the offset. The temporary and final regulations are effective 10/1/82, and serve by cross reference as the proposed rulemaking. Comments on the proposal are requested by 4/9/82. For additional information contact Susan Thompson at 202/566-3294.

The new form to be used for reporting gains and losses from regulated futures contracts and other positions that are part of a tax straddle, Form 6781, Gains and Losses From Commodity Futures Contracts and Straddle Positions, has been made available by the IRS (see IR-82-24). The 1981 tax act provides that regulated futures contracts that are open at the end of the tax year must be marked to market and that gains and losses from those contracts, plus the gains and losses from contracts terminated during the year, are treated as 60% long term and 40% short term, regardless of how long the contracts were held. Losses from positions that are part of a straddle must be deferred to the extent of any unrealized gain on open offsetting positions. The IRS noted that the new provisions apply to contracts and positions established after 6/23/81, but that sections 508(c) and 509 of the 1981 Economic Recovery Tax Act provide for elections for taxpayers to accelerate the effective date of some or all of the provisions. For tax years ending after 6/22/81, taxpayers must file Form 6781, if they entered into any regulated futures contracts or straddles. Taxpayers who have already filed their 1981 return should now file an amended return and attach Form 6781. An election under ERTA sections 508(c) and 509 must be made by the due date of the tax return, including extensions.

Some taxpayers are overpaying their 1981 income tax by not taking advantage of the new interest and dividend exclusion, according to a review of early tax returns by the IRS. Taxpayers may exclude up to a total of $200 in qualifying interest and dividends, $400 for a married couple filing a joint return. The 1980 Crude Oil Windfall Profit Tax Act changes the IRC section 116 exclusion, which formerly applied only to dividends, by doubling the amount of the exclusion and expanding it to apply to certain types of interest received. Qualifying for the exclusion is interest paid by U.S. banks, credit unions, domestic building and loan associations, and other savings or thrift institutions if the deposits or accounts are insured under federal or state law. Interest on domestic corporate obligations, interest on taxable obligations of the federal government or a state or political subdivision of a state and interest earned on participation shares of a trust established under federal law also qualifies for the exclusion. IRS stressed that taxpayers should review all of their Forms 1099 to see if the interest they received meets the qualifying criteria because some financial institutions may have inaccurately stated on the Form 1099 whether the interest earned qualifies for the exclusion. Taxpayers who have already filed tax returns and are entitled to the interest and dividend exclusion, but did not claim it, should file Form 1040X, amended U.S. individual income tax return. In addition, the IRS recently proposed an amendment to section 116 which would add commercial paper and repurchase agreements to the list of categories of interest which qualify for exemption (see the 2/9/82 Fed. Reg., pp. 5902-26). Comments on the proposal are requested by 4/12/82. For additional information contact Phoebe Mix at 202/566-3297.

Withholding of income tax from amounts paid to an employee under an accident or health plan were the subjects of a recent notice of proposed rulemaking from the IRS (see the 2/12/82 Fed. Reg., pp. 6440-41). The proposed regulations implement changes in the tax law enacted as part of the Tax Reform Act of 1976 and the Tax Reduction and Simplification Act of 1977. They require withholding on all payments of amounts attributable to employer contributions to an accident or health plan, and, therefore, includable in the employee's gross income. Further, payments made by a third party acting as an agent for the employer are also subject to withholding. The proposed regulations also require the filing of information returns on disability payments. Comments are requested by 4/12/82. For additional information contact Barry Wold at 202/566-3828.

SPECIAL: SENATE SMALL BUSINESS COMMITTEE REVIEWS FIRST SESSION ACTIVITIES

Small businesses have rarely been considered in the federal policy making process, according to a review of the activities of the Senate Committee on Small Business, for the First Session, 97th Congress, issued by the Committee Chairman Sen. Lowell Weicker, Jr. (R-CN). Noting that small businesses are responsible for 43% of the Gross National Product, 58% of private employment, and 75% of all new jobs in this country, Sen. Weicker concludes that high interest rates, inflation and unavailability of credit could fundamentally alter the competitive nature of our economic system by dragging more and more small firms into bankruptcy. He concludes: "The real loser, unfortunately, will be the American consumer--who will pay more and get less."

SPECIAL: LEGISLATION INTRODUCED ON ACCOUNTING RELIEF FOR FARMING PARTNERSHIPS

A measure that would allow certain farms operated as partnerships to continue to report income on the cash method of accounting has been introduced by House Ways and Means Committee members Reps. Skip Bafalis (R-FL) and Sam Gibbons (D-FL). The bill, H.R. 5434, would provide relief from an unintentional burden imposed on farms operated as a partnership by the 1976 Tax Reform Act. According to Rep. Bafalis, the general practice of many farming partnerships is to use a cash method of accounting, but tax code section 447 provides that any farm partnership which includes a certain type of corporation as a partner must use an accrual method of accounting which results in an acceleration of income and a deferral of deductions. Therefore, a partnership could be forced to convert from the cash to the accrual method if a corporate partner's gross receipts rise above a fixed statutory level. According to Bafalis, conversion to accrual accounting "creates an added tax liability for each partner, distorts cash flow of the operation, and may make participation in the farm partnership no longer an economically worthwhile venture for individual partners." For those partnerships engaged in the business of farming when section 447 was enacted and at that time had a corporate partner that was no longer exempt, the legislation would allow the individual partners to make an election to continue reporting on the cash basis while the corporate partner reports on the accrual basis.

For additional information, please contact Jim Kovakas, Gina Rosasco, Nick Nichols or Kathee Baker at 202/872-8190.

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